

## 2002 REVENUE REVIEW

In 2002, 91.4 percent of all tax revenue collected by the State of Nebraska was collected by the Nebraska Department of Revenue. Tax collections for the year were \$2,989 million, a decrease of \$59 million or 1.9 percent below 2001. The receipts from permits, fees, and licenses collected by the department were \$425 thousand, a decrease of 16.0 percent from the previous year.

Over three-quarters of the department's net tax receipts in 2002 were from state sales tax and income taxes. Net individual income tax receipts decreased \$92 million to \$1,164 million in 2002, a decrease of 7.3 percent from 2001. Net receipts from corporation income tax were \$93.0 million in 2002, down \$28 million or 23.1 percent from 2001. Net state sales and use tax receipts for 2002 totaled \$958.2 million, an increase of \$35.9 million or 3.9 percent above 2001. Sales tax receipts included \$150.4 million of sales tax on motor vehicles.

The largest share of tax revenue is deposited in the State General Fund. General Fund revenue sources accounted for 75.7 percent of the total revenue collected by the Department of Revenue in 2002. Sales and income taxes are the primary sources of General Fund revenue.

Motor fuels taxes and sales tax on motor vehicles are deposited in state highway funds. Revenue deposited in the Highway Trust Fund, Highway Allocation Fund, and the Highway Cash Fund accounted for 14.7 percent of revenue collections.

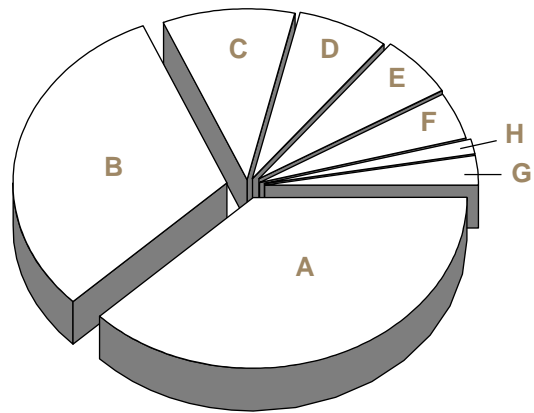
In 2002, 7.7 percent of revenue collections were distributed to local governments. City sales tax and county lodging tax are collected by the Nebraska Department of Revenue and distributed directly to cities and counties.

Revenue deposited in other governmental funds accounted for the remaining 1.9 percent of collections.

The major state revenue sources are described beginning on page 8. The descriptions include the basis and current tax rate, due dates of reports and payments, administering agencies or officials, and the manner of distribution of each tax or fee.

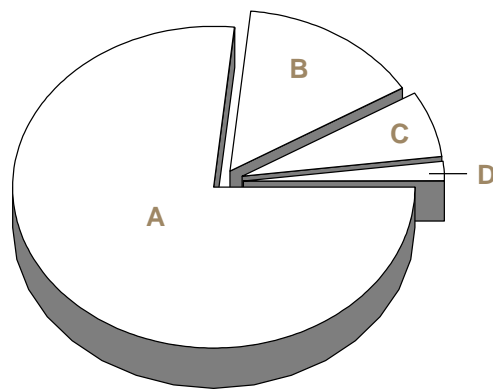
### Sources of Revenue

A	Individual Income Tax .....	39.0%
B	State Sales and Use Tax .....	32.1%
C	Motor Fuels Taxes .....	9.7%
D	City Sales Tax .....	7.5%
E	Sales Tax on Motor Vehicles .....	5.0%
F	Corporation Income Tax .....	3.1%
G	Other Collections .....	2.1%
H	Cigarette Tax .....	1.5%



### Distribution of Revenue

A	General Fund .....	75.7%
B	Highway and Road Funds* .....	14.7%
C	Local Governments .....	7.7%
D	Other Funds .....	1.9%



\* Includes the Highway Trust Fund, Highway Allocation Fund, and Highway Cash Fund

## 2002 REVENUE LEGISLATION

The following is a summary of the major legislation passed by the 2002 Legislature that relates to taxes collected by the Nebraska Department of Revenue.

### SALES AND USE TAX

#### *Sales Tax Rate Increase*

For one year beginning October 1, 2002, the Nebraska sales and use tax rate will increase from 5 percent to 5.5 percent. (LB 1085)

#### *New Services Subject to Tax*

Beginning October 1, 2002, the following services are subject to tax:

- Building cleaning and maintenance services
- Pest control services
- Security services
- Motor vehicle washing, waxing, towing and painting

Sales tax is due on the total amount charged for the service without deduction for any materials used, labor costs, interest paid, delivery charges or any other mandatory charge required to be paid in the purchase of the service. Sellers of these services must obtain a Nebraska sales tax permit and begin collecting and remitting the tax for all sales made on and after October 1, 2002. (LB1085)

#### *Public Records*

Beginning October 1, 2002, sales of public records and documents are exempt from tax. The exemption applies to documents such as permits and licenses which are required to be furnished by a governmental agency as well as those which are permissive in nature, such as court records and property tax records.

Documents developed and produced by a governmental agency for commercial sale to the general public remain subject to tax provided the price is not fixed by state law or state regulation. (LB 57)

#### *Drainage Districts and Elected County Fair Boards*

Beginning October 1, 2002, purchases by a Nebraska Drainage District and an elected Nebraska County Fair

Board are exempt from tax. The exemption applies to all purchases except those for use in the business of furnishing gas, water, electricity or heat. (LB 123)

#### *Mobile Telecommunications Services*

Beginning August 1, 2002, sales of mobile telecommunications services are subject to tax. The term “mobile telecommunications services” includes local and intrastate cellular telephone service, paging, and two-way radio service. The sales are subject to tax at the residential street address or the primary business street address of the customer.

Although charges for local and intrastate cellular telephone service have been subject to tax, beginning August 1, 2002, charges for paging and two-way radio services become taxable. In addition, the definition of “intrastate” has been changed to include mobile telecommunications services that originate and terminate in the same state, even if that state is not Nebraska. (LB 947)

#### *Computer Software Training*

Beginning October 1, 2002, charges for computer software training are subject to tax when the training is performed at a location within Nebraska. The service can be performed by the seller of the software or any other person. (LB 1085)

#### *Installation and Application Labor*

Beginning October 1, 2002, charges for installing and applying tangible personal property are subject to tax when associated with property that is subject to tax. Persons charging for installation services include a contractor operating under Option 1. (LB 1085)

#### *Refractory Materials*

Beginning October 1, 2002, sales of refractory materials, lime, synthetic slag, mill rolls and guides for use in the manufacture of steel or cement are subject to tax. (LB1085)

#### *Magazine or Journal Subscriptions*

Beginning October 1, 2002, sales of magazines or journals which are sold by subscription are subject to tax. (LB 1085)

## *Estate and Transfer Tax*

The Nebraska estate tax and generation-skipping transfer tax are retained even though the federal transfer taxes are being eliminated by the year 2005. The Nebraska taxable transfer is the federal taxable transfer with an exemption amount of \$1 million. The Nebraska estate tax ranges from .8 percent for taxable estates between \$40,000 and \$90,000 to 16 percent for taxable estates greater than \$10,040,000. The tax rate for generation-skipping transfers is 16 percent. Operative January 1, 2003. (LB 905)

## **INCOME TAX**

### *Income Tax Rates*

For tax year 2003, the individual and fiduciary income tax rates have been increased. The new rates for the four income brackets are: 2.56, 3.57, 5.12 and 6.84 percent. Operative January 1, 2003. (LB 1085)

### *Bonus Depreciation*

For assets placed in service after September 10, 2001 and before September 11, 2004, 85 percent of the bonus depreciation allowed under recent federal law changes is added back for individual, corporate and fiduciary income tax purposes. The amount added back is allowed as a deduction over five years beginning in tax year 2005. Partners, members, and shareholders of partnerships, limited liability companies, sub-chapter S corporations, and cooperatives will add back their pro-rata share of the bonus depreciation on their individual income tax returns. (LB 1085)

## **MISCELLANEOUS**

### *Cigarette Tax Rate*

For a two-year period beginning October 1, 2002, the cigarette tax rate will increase to \$.64 per package of cigarettes containing one to twenty cigarettes and \$.80 per package containing twenty five cigarettes. (LB 1085)

### *Other Tobacco Products Tax Rate*

The tax rate on the first owner of other tobacco products sold in Nebraska will increase to 20 percent beginning October 1, 2002. **Sales of cigarettes are not included in this program.** (LB 1085)

### *Cigarette Wholesaler License, Certification and Penalty*

Effective April 20, 2002, Nebraska-licensed cigarette wholesalers who are in violation of the cigarette tax statutes or rules or regulations may be subject to an administrative penalty not to exceed \$1,000 for each violation. (LB 989)

Effective April 20, 2002, cigarette manufacturers whose cigarettes are sold in Nebraska must annually certify to the Tax Commissioner that they are either participating in the Master Settlement Agreement or are depositing money into escrow based on the number of cigarettes sold in Nebraska. The certification must be delivered on or before August 30, 2002 for calendar year 2001. For years 2002 and after, the certification is due on or before April 30th of the following year. (LB 989)